

June 22, 2009

Summary:

**Northampton, Massachusetts;
General Obligation; Note**

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Credit Profile

US\$2.605 mil GO BANs dtd 06/30/2009 due 06/30/2010

Short Term Rating

SP-1+

New

Rationale

Standard & Poor's Ratings Services has assigned its 'SP-1+' short-term rating to Northampton, Mass.' bond anticipation notes (BANs) and affirmed its 'A+' long-term rating on the city's general obligation (GO) bonds. The outlook is stable.

The ratings are based on our opinion of the city's:

- Good economy that functions as a tourism center and contains stable large employers;
- Good financial management policies; and
- Low net debt burden.

These strengths are somewhat offset by recent declines in the city's financial position.

The city's full faith and credit GO pledge secures the bonds and BANs.

Northampton, with a population of approximately 28,500, is located in northwestern Massachusetts, 93 miles west of Boston. The city contains Smith College (1,390 employees) and is located near four other colleges and universities, and Northampton's downtown functions as a tourism and commercial center for the region. Other large employers include:

- Cooley Dickinson Hospital (1,005 employees);
- City of Northampton (992);
- VA Medical Center (570); and
- ServiceNet, human service provider (500).

Income levels for city residents are, in our opinion, good, with household effective buying income (EBI) equal to 98% of the national level and per capita EBI equal to 107%. Unemployment in the city has historically been below commonwealth and national levels, and in April 2009, city unemployment was 5.0%.

The city's assessed value has increased slightly for fiscals 2008 and 2009--in contrast to declines in many other municipalities in the commonwealth--to \$3.24 billion, or \$114,000 per capita, which we consider to be an extremely strong level. The tax base is diverse, with the 10 largest taxpayers accounting for less than 6% of total assessed value. The city's tax base is 80% residential and 14% commercial. City officials report that residential values have dropped about 2% in the past year, but that the commercial sector has maintained its value and that commercial development is continuing.

Although Northampton's financial position declined in fiscal 2008, with another decline projected for fiscal 2009, the electorate approved a tax levy override for fiscal 2010 that management projects will produce balanced results for 2010. In fiscal 2008, the combined unreserved general fund and stabilization fund declined to \$4.3 million, or 5.7% of expenditures, which we consider to be a good level. Management estimates an additional decline of about \$1.6 million in the combined general fund and stabilization fund for fiscal 2009, which would bring the combined balance down to about 3.5% of expenditures. The projected declines are due primarily to \$530,000 in midyear state aid cuts, along with deficits in snow removal and firefighter overtime expenditures. The fiscal 2010 budget includes no appropriation of general fund or stabilization balance, and projects \$2.2 million in state aid declines based on the projections from the House and Senate. The budget balance was accomplished in conjunction with a \$2.0 million operating override of the tax levy limit that voters approved for fiscal 2010 with a 60% approval rate, and the city has negotiated salary freezes with most of its unions. About 25% of the city's general fund revenues are state aid, with 50% from property taxes.

Standard & Poor's considers the city's financial management practices "good" under its Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. The highlights of the city's practices include monthly budget monitoring reports, a formal debt management policy, and a formal five-year financial plan. Although Northampton has a 5% fund balance goal for its stabilization fund, it has intentionally drawn down that fund to below the goal in recent years.

After accounting for state assistance for school debt and for the self-support of debt by utility revenues, Northampton's overall net debt burden is, in our opinion, low at about \$800 per capita and 0.7% of market value. The city's largest identified capital need is a new police station, which has an estimated cost of \$16 million, \$2.0 million of which is outstanding as BANs. The other major capital need is for a public works facility, although management projects the amount of that project funded by the tax levy to be only \$3.0 million, with the remaining \$6.0 million supported by utility revenue.

Outlook

The stable outlook reflects Standard & Poor's expectation that the levy limit override and other budget adjustments for fiscal 2010 will enable Northampton to achieve structural stability and maintain an adequate financial position despite declining state aid. In addition, the city's debt burden should remain manageable due to the self-support projected for the majority of planned additional debt.

Related Research

- USPF Criteria: "GO Debt," Oct. 12, 2006
- USPF Criteria: "Short-Term Debt," June 15, 2007

Ratings Detail (As Of June 22, 2009)

Northampton GO (FSA)

Unenhanced Rating

A+(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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